School Employees Retirement System of Ohio

Comprehensive Annual

Financial Report

For The Year Ended June 30, 1993

SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

Comprehensive Annual

FINANCIAL REPORT

for the year ended June 30, 1993

Prepared by SERS Staff

Thomas R. Anderson
Executive Director

Joel E. Sofranko
Director of Finance

The School Employees Retirement Board of Ohio

Lowell B. Davis
President
Euclid, Ohio
Term Expires June 30, 1993

Judy Kelley
Vice President
Akron, Ohio
Term Expires June 30, 1993

Jeannie Knox
Employee-Member
Cincinnati, Ohio
Term Expires June 30, 1995

Daniel L. Wilson
Employee-Member
Shaker Heights, Ohio
Term Expires June 30, 1996

RuthAnna Spears
Retiree-Member
Kettering, Ohio
Term Expires June 30, 1996

Lee Fisher
Attorney General

Thomas E. Ferguson
Auditor of State

Thomas R. Anderson
Executive Director

DIRECTORS

Robert E. Hartsook
Deputy Director / Member Services

F. Robert Coe
Management Information Services

Paul M. Kubinsky
Investments

Joel E. Sofranko
Finance

ORGANIZATIONAL CHART

RETIREMENT BOARD
Lowell B. Davis, *President*
Judy Kelley, *Vice President*
Jeannie Knox, *Employee-Member*
Daniel L. Wilson, *Employee-Member*
RuthAnna Spears, *Retiree-Member*
Lee Fisher, *Attorney General*
Thomas E. Ferguson, *Auditor of State*

EXECUTIVE DIRECTOR
Thomas R. Anderson

DEPUTY DIRECTOR/ DIRECTOR MEMBER SERVICES
Robert E. Hartsook

DIRECTOR MANAGEMENT INFORMATION SERVICES
F. Robert Coe

DIRECTOR INVESTMENTS
Paul M. Kubinsky

DIRECTOR FINANCE
Joel E. Sofranko

CONSULTANTS/ADVISORS

Dr. Robert J. Atwell - Medical Advisor
Coopers & Lybrand - Independent Accountants
Gabriel, Roeder, Smith & Co. - Actuaries
Ronald A. Karp Associates - Investment Performance
The L & B Group - Real Estate Investments
Mellon Capital Management - Equity Investments

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Certificate of Achievement

Certificate of Achievement for Excellence in Financial Reporting

Presented to

School Employees Retirement System of Ohio

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 1992

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

SCHOOL EMPLOYEES RETIREMENT SYSTEM

45 North Fourth Street * Columbus, Ohio 43215-3634 * Telephone (614) 222-5853

December 20, 1993

President and Members of the Retirement Board:

Dear President and Members:

We are pleased to submit to you the comprehensive annual financial report of the School Employees Retirement System of Ohio (SERS) for the fiscal year ended June 30, 1993.

The report is divided into six sections: an Introductory Section which contains a Letter of Transmittal, along with the identification of the administrative organization, Certificate of Achievement for Excellence in Financial Reporting and a summary of federal and state legislation affecting the System over the past year; a Financial Section which contains an independent accountants' report from our certified public accountants, Coopers & Lybrand, and the financial statements of the System; an Actuarial Section which contains a letter expressing the opinion of our consulting actuaries, Gabriel, Roeder, Smith & Company and results of their annual actuarial valuation; a Statistical Section which includes significant data pertaining to the System; an Investment Section which includes the investment report and schedules of portfolio activity for the past year; and a Plan Summary Section which provides a concise explanation of the various benefit plans which we provide to our members.

SERS is a cost-sharing multiple-employer public employee retirement system established by the Ohio General Assembly in 1937 to provide retirement benefits to employees of the Ohio public schools who are not required to possess a certificate in order to perform their duties. Benefits provided to participants in SERS include age and service retirement, disability benefits, survivor benefits, death benefits and post-retirement health care benefits. From 1937 to the present SERS has experienced continuous growth, and when possible, provided benefit enhancements. For a more complete description of employees eligible for membership in SERS, as well as benefits provided upon retirement, disability or death, please see the Plan Summary Section on page 49.

Economic Environment

During the fiscal year ended June 30,1993, the economic landscape continued to change. On the one hand, the U.S. economy appeared to be expanding. Indicators such as GDP, productivity, and auto sales pointed to an improved business environment. On the other hand, unemployment, retail sales, and factory operating rates continued to indicate a sluggish trend. On balance, the economy is growing at roughly one-half the normal output. While these conditions do not allow for payroll increases, they are tempering interest and inflation rates. This trend is expected to continue for the remainder of calendar year 1993.

During the fiscal year, as interest rates continued falling, many investors turned to equity investments. These lower rates provided an attractive backdrop for stocks. This appears to be sufficient reason for caution going forward. Interest rates have fallen so far that one wonders how much farther they can fall. This, combined with the fact that most stocks today are expensive, is further reason enough to move ahead very carefully.

Lower interest rates will continue to place pressure on SERS' fixed income and short-term portfolio as paydowns and net new funds will have to be invested in instruments carrying significantly lower rates. As always, SERS' investment portfolio will continue to emphasize high quality assets, representing excellent long term value which will protect pension and health care benefits well into the future.

As the details of the Clinton administration's health care proposals are made known, significant impact on SERS' financial position as well as operations are possible. At this time enough details are not known so as to make a determination if effects on SERS' post-retirement health care benefit package will be positive or negative.

Major Initiatives and Financial Highlights

Five major initiatives dominated SERS' activities during the current fiscal year. The first involved investment legislation to allow greater flexibility in investing the System's assets. In conjunction with the other Ohio retirement systems, SERS was active in promoting legislation to change Ohio statutes regarding investment authority. The goals were to enhance our earnings capability, allow for greater diversification and increase the rate of return on the portfolio. Legislation was introduced and passed by the Ohio General Assembly and signed by the Governor. The expanded investment authority became effective on October 7, 1993.

The second major initiative during the current fiscal year involved the ongoing search for cost effective ways to manage our valuable insurance program. As we have noted in the past, SERS has one of the premier health care programs for public sector retirees in the country. Employing an outside consultant, and after reviewing several proposals, a managed care program utilizing a preferred provider network of physicians and hospitals was adopted by the Board. Implementation in phases began during the fourth quarter of calendar year 1993.

As a third initiative during fiscal 1993, the System undertook a major study to examine existing automated data processing systems related to membership and benefit processing applications. The purpose of this study was to determine a course of action to improve or replace existing automated systems. The study is still underway.

The fourth major initiative during fiscal 1993 involved final implementation of the provisions of H.B. 382 which established new classes of membership and a new annuity benefit for re-employed retirees. Due to federal legislation passed in 1990, the Ohio General Assembly changed membership requirements and brought new groups of school district employees under SERS. One of the largest groups of new members, re-employed Ohio public system retirees, are now entitled to an annuity based on their contributions during re-employment. SERS has been working on development of procedures and computer programs necessary to implement the new membership classes and annuity program.

The fifth initiative involved implementing the provisions of H.B. 346 which the Ohio legislature enacted in order to comply with the requirements of the federal Older Workers Benefit Protection Act, commonly known as the "Betts' Legislation". The Betts Legislation clarified that the Age Discrimination in Employment Act (ADEA) applies to benefit plans such as disability benefits and required public plans to comply with its provisions by October, 1992.

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to SERS for its comprehensive annual financial report for the fiscal year ended June 30, 1992.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. SERS has received a Certificate of Achievement for the last eight consecutive years (fiscal years ended 1985-1992). We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Accounting System and Reports

These financial statements were prepared in accordance with generally accepted accounting principles of governmental accounting and reporting as pronounced by the American Institute of Certified Public Accountants and the Governmental Accounting Standards Board. The financial statements are the responsibility of SERS' management. Our internal accounting controls are designed to ensure the security of member and employer contributions, to assure responsible safeguarding of our assets and to provide a degree of reliability to all our financial records.

During the fiscal year ended June 30, 1993, a new general ledger system was purchased and installed. This new system will allow greater flexibility and efficiency in the timely preparation of financial and managerial information.

The principles promulgated by Statement No. 6 of the National Council on Governmental Accounting are used in the System's accounting and subsequent reporting of financial activities. The accrual basis of accounting is used to record all financial transactions. Gains and losses on sales and exchanges of investments are recognized on the transaction date. Investments in fixed-income securities are reported at amortized cost; discounts and premiums are amortized using the constant yield method. All other assets are reported at cost. All investments are subject to adjustment for market declines determined to be other than temporary.

Investments

SERS invests the accumulated funds in order to maximize both current income yield and long-term appreciation. For the fiscal year ended June 30, 1993, investments provided 42.0% of the System's total revenues while employee and employer contributions provided 21.3% and 36.3%, respectively; other sources accounted for the remaining .4%.

The market value of the investments of the System was $3.891 billion at June 30, 1993, an increase of $314 million from the previous year. For the last ten years, SERS has experienced an average annualized return of 11.2%. At June 30, 1993, the carrying value of our investment portfolio was structured as follows: 45.6% in debt securities; 35.7% in equity securities; 9.6% in short-term investments; and 9.1% in real estate.

The primary objective of our investment policy is to assure that the System meets its responsibilities for providing retirement and other benefits. The portfolio is diversified to provide adequate cash flow and the highest possible total return on System assets with the least possible exposure to risk. Statutory provisions also serve to limit risk (and return) within respective investment portfolios. Details of portfolio composition, rates of return, analysis of significant economic conditions, and additional information concerning our investment policy and operations are provided on pages 44 through 48 of this report.

Revenues

The financing of retirement and health care benefits is derived from employee and employer contributions and through investment earnings. Revenues from employee and employer contributions were $123.3 million and $210.4 million, respectively, while income from investments totaled $243.5 million. The employee and employer contribution rates during fiscal 1993 remained unchanged from the prior year at 9% and 14%, respectively. Overall revenues increased 9.8% over those of the prior year, primarily due to increased investment earnings and increased employer and employee payroll contributions resulting from higher levels of gross payrolls of active members.

Operating Revenue (Expressed in Millions)

	1993	1992	Increase Amount	Increase Percentage
Member Contributions	$123.3	$117.3	$ 6.0	5.1%
Employer Contributions	210.4	202.4	8.0	4.0
Investment Earnings	243.5	205.8	37.7	18.3
Other	2.4	2.3	.1	4.3
Total	$579.6	$527.8	$51.8	9.8%

Expenses

Expenses are incurred primarily for the purpose for which SERS was created, namely, the payment of benefits. Included in the total expenses for fiscal 1993 were benefit payments, refunds of contributions due to member terminations or deaths, transfers of contributions to other Ohio Systems to provide benefits for those members who had membership in more than one system, and administrative expenses. Expenses for fiscal 1993 totaled $350.4 million, an increase of 7.6% over 1992 expenses. Increases in the number of benefit recipients and increased health care expense were the primary reasons for the increase in total System expenses for the fiscal year. The increase in administrative expenses primarily related to the managed care study and the data processing systems study mentioned above.

Operating Expenses (Expressed in Millions)

	1993	1992	Increase Amount	Increase Percentage
Retirement Payments	$237.4	$220.5	$16.9	7.7%
Health Care Payments	87.1	81.9	5.2	6.4
Refunds	13.5	12.8	.7	6.0
Administrative Expenses	9.7	8.6	1.1	13.8
Other	2.7	1.7	1.0	57.8
Total	$350.4	$325.5	$24.9	7.6%

Funding and Reserves

Funds are derived from the excess of revenues over expenses, and are accumulated by SERS in order to meet current and future benefit obligations to retirees and beneficiaries. The higher the level of funding, the larger the accumulation of assets and the greater the investment income potential. Net income for the fiscal year 1993 resulted in an increase in the fund balance of $229.2 million.

The actuarial valuation for funding purposes, dated June 30, 1993, reflects an unfunded accrued liability for basic benefits of $1,379 million and for health care benefits of $1,660 million. These liabilities represent the difference between the computed actuarial accrued liability to be paid members and retirants and total valuation assets for basic benefits ($5,052 million and $3,673 million) and health care ($1,801 million and $141 million). The unfunded accrued liabilities are being amortized in an orderly fashion over future years. The pension benefit obligation, a standardized disclosure measure of the actuarial present value of credited projected benefits, for basic benefits and health care benefits was $4,901 million and $1,517 million, respectively, as of June 30, 1993. The employer contribution rate of 14% is allocated by Board policy between basic benefits and health care. In addition to the 14%, employers pay a surcharge for any member whose salary is less than a minimum pay. The employer contributions from the basic 14% employer rate plus the surcharge accomplish the goal of putting basic benefits and health care benefits on a level cost funding basis.

Additional information regarding funding is provided within the Actuarial Section (pages 32 to 37) of this report.

Future Prospects

As certified by our actuary in this

report, SERS is being maintained on a financially sound basis, thus providing protected future benefits for participants. We anticipate that investment earnings on System assets will continue to meet or exceed actuarially assumed earnings rates. The System's goal is attainment of a fully funded position, while keeping member and employer contributions level.

System employees are dedicated to the prudent investment and protection of System assets, to excellence in service to members and retirees, and to reduction of System costs where applicable. These directives have been and will remain our highest priorities.

When possible, SERS will explore enhancements to our existing benefits and provide new benefits. In spite of the volatility of health care costs, we will continue to meet the challenges of providing the best possible and affordable post-retirement health care coverage.

ACKNOWLEDGEMENTS

The preparation of this report is the result of the combined effort of the System's staff under the direction of the Retirement Board. It is intended to provide complete and reliable information as a basis for making management decisions, to disclose compliance with legal provisions, and to serve as a means of exhibiting responsible stewardship of the assets contributed by the members and their employers.

This report will be mailed to all employer members of SERS and other interested parties.

Respectfully submitted,

Thomas R. Anderson
Executive Director

Joel E. Sofranko, CPA
Director of Finance

Legislative Summary

State Legislation

During the past year, the Ohio General Assembly has considered various pieces of legislation which would impact SERS. The following significant legislation was passed:

S.B. 43 effective 10/7/93

This legislation was enacted to expand and clarify SERS' investment authority. SERS' investment authority was expanded to authorize investments in any stock, American Depositary Receipt or derivative of such if the underlying instrument is listed on the S&P 500 Index, the 400 Mid-Cap Index or the New York or American Stock Exchange. The statutory limit on stock investments was increased from 35 percent to 50 percent of the value of the Fund. The legislation further authorizes SERS to invest in debt or equity interests or instruments issued by foreign entities, not to exceed, in the aggregate, 10 percent of the value of the Fund.

H.B. 152 effective 7/1/93

As part of the State of Ohio's biennial budget, a provision was enacted requiring SERS to make long-term care insurance available to SERS members, former members and retirees. Under the legislation, SERS may establish its own program or join with one of the other state retirement systems. SERS is not required to pay any of the cost of the insurance and may contract with companies for the issuance of an appropriate long-term care policy.

Federal Legislation

The impact of Congressional and federal regulatory activities upon SERS has increased during recent years. SERS monitors activities on the federal level and when necessary contacts appropriate Congressional representatives and regulatory agencies in an effort to educate them as to the impact of their activities on SERS and its members and beneficiaries. Significant activities on the federal level over the past year include the following:

Windfall/Offset

Legislation to amend or repeal the Social Security Offset provision has again been introduced. H.R. 1674, introduced by Congresswoman Furse, and H.R. 1897, introduced by Congressman Jefferson, would totally repeal the Offset. Although both bills were introduced in early 1993, no action has been taken by Congress.

Section 415

Legislation to amend Section 415 of the Internal Revenue Code to lessen its impact on public retirement systems, such as SERS, was again introduced in Congress. Section 415 provides that no retirement benefit can be paid which is in excess of either a set dollar amount that is adjusted annually for inflation or 100% of compensation. The current definition of "compensation" does not include deferred income such as that under Section 414(h) pick up plans or Section 457 deferred compensation plans. The legislation introduced included a uniform definition of "compensation", exempted governmental plan benefits from the 100% limitation, authorized governmental plans to establish excess plans and provided that governmental plan disability retirement and survivor benefits are not subject to Section 415. Due to other Congressional priorities, the Section 415 relief was not included in the tax bill passed this year. The needed legislation may be included in a tax simplification bill if one is introduced prior to the end of 1993.

Withholding Tax on Lump Sum Distributions

Legislation (H.R. 5260) was enacted to require a 20 percent withholding tax on lump sum pension distributions paid after 12/31/92 that are not rolled over directly into another qualified pension plan or IRA by the recipient. The withholding is applicable to SERS refunds in excess of $200 paid on or after January 1, 1993.

Section 401(a)(17) Limit

The budget Reconciliation Bill contained a provision lowering the Internal Revenue Code Section 401(a)(17) cap on compensation that can be taken into account when calculating a pension benefit. The cap is reduced from $200,000, indexed for inflation, to $150,000, indexed for inflation in increments of $10,000. Under a transitional rule applicable to governmental plans, the 401(a)(17) limit of $235,840 in effect as of July 1, 1993 remains applicable as to current SERS members.

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FINANCIAL SECTION

REPORT OF INDEPENDENT ACCOUNTANTS

Coopers &Lybrand

certified public accountants

REPORT OF INDEPENDENT ACCOUNTANTS

Members of the Retirement Board
School Employees Retirement System of Ohio
Columbus, Ohio

We have audited the accompanying balance sheet of School Employees Retirement System of Ohio as of June 30, 1993, and the related statements of revenues, expenses and changes in fund balance and cash flows for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of School Employees Retirement System of Ohio as of June 30, 1992 were audited by other auditors, whose report dated December 4, 1992 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 1993 financial statements referred to above present fairly, in all material respects, the financial position of School Employees Retirement System of Ohio as of June 30, 1993, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

We also audited the adjustment described in Note 11 that was applied to restate the 1992 financial statements. In our opinion, such adjustment is appropriate and has been properly applied.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial section schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such schedules as of and for the year ended June 30, 1993 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The schedules as of and for the year ended June 30, 1984 through 1992 were reported upon by other auditors, whose reports stated that the schedules were fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Coopers & Lybrand

Columbus, Ohio
December 3, 1993

FINANCIAL SECTION

BALANCE SHEETS
JUNE 30, 1993 AND 1992

	1993	1992
Assets:		
Cash (note 5)	$ 1,811,826	$ 5,789,898
Receivables:		
Contributions:		
Employers (note 4)	117,607,488	114,164,777
Employees (note 4)	9,671,246	8,688,530
State of Ohio subsidies	713,509	794,464
Accrued investment income	27,940,769	28,043,402
Investment sale proceeds	42,058,466	26,479,200
Total receivables	197,991,478	178,170,373
Investments, at cost (market $3,891,427,930 and $3,576,978,461, respectively) (notes 5 & 6)	3,120,457,058	2,913,435,808
Property and equipment, at cost (note 7)	11,444,522	11,158,428
Less accumulated depreciation	6,072,330	5,235,575
Net property and equipment	5,372,192	5,922,853
Other assets (note 9)	6,299,415	7,410,499
Total assets	3,331,931,969	3,110,729,431
Liabilities:		
Accounts payable and accrued expenses (note 11)	956,029	798,996
Investment commitments payable	14,148,099	24,376,926
Health care benefits incurred and unpaid	20,853,837	19,020,746
Other liabilities (note 9)	1,332,697	1,120,246
Total liabilities	37,290,662	45,316,914
Net assets available for benefits	**$3,294,641,307**	**$3,065,412,517**
Fund balance (note 3):		
Pension benefit obligation:		
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$3,267,007,395	$3,120,694,137
Current employees:		
Accumulated employee contributions, including allocated investment income	889,126,855	816,328,094
Employer financed portion	2,262,011,887	2,044,586,484
Total pension benefit obligation	6,418,146,137	5,981,608,715
Unfunded pension benefit obligation payable	(3,123,504,830)	(2,916,196,198)
Total fund balance	**$3,294,641,307**	**$3,065,412,517**

See accompanying notes to financial statements.

Financial Section

Statements of Revenues, Expenses and Changes in Fund Balance

Years ended June 30, 1993 and 1992

	1993	1992
Revenues:		
Contributions:		
Employers (note 4)	$210,429,351	$202,421,912
Employees (note 4)	123,270,559	117,331,597
State of Ohio subsidies	714,365	794,224
Transfers from other Ohio systems	1,649,509	1,489,451
	336,063,784	322,037,184
Investment income:		
Interest and dividends	184,664,571	182,634,634
Real estate income, net (note 6)	13,683,573	8,869,551
Net gain on sale of investments (note 8)	45,191,019	14,235,701
	243,539,163	205,739,886
Total revenues	579,602,947	527,777,070
Expenses:		
Benefits:		
Retirement	198,878,409	185,750,980
Disability	24,987,872	22,258,565
Survivor	12,666,260	11,814,421
Health care	87,079,286	81,851,492
Death	774,729	746,620
	324,386,556	302,422,078
Refund of employee contributions	13,513,992	12,751,491
Administrative expenses	9,726,019	8,586,487
Transfers to other Ohio systems	2,747,590	1,741,637
Total expenses	350,374,157	325,501,693
Net income	229,228,790	202,275,377
Fund balance, beginning of year	3,065,412,517	2,863,137,140
Fund balance, end of year (note 11)	**$3,294,641,307**	**$3,065,412,517**

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 1993 AND 1992

	1993	1992
Cash flows from operating activities:		
Contributions received	$ 331,719,312	$ 314,697,398
Benefits paid	(322,553,465)	(300,571,027)
Refunds of employee contributions	(13,513,992)	(12,751,491)
Administrative expenses paid	(7,153,938)	(10,185,036)
Transfers to other Ohio systems	(2,747,590)	(1,741,637)
Net cash used in operating activities	(14,249,673)	(10,551,793)
Cash flows from investing activities:		
Proceeds from investments sold	3,190,946,425	2,669,062,271
Purchase of investments	(3,383,176,220)	(2,852,590,484)
Investment income, net of investment expenses	203,042,248	197,294,633
Net cash provided by investing activities	10,812,453	13,766,420
Cash flows from capital and related financing activities:		
Additions to property and equipment	(540,852)	(429,515)
Net cash used for capital and financing activities	(540,852)	(429,515)
Net increase (decrease) in cash	(3,978,072)	2,785,112
Cash at beginning of year	5,789,898	3,004,786
Cash at end of year	**$1,811,826**	**$5,789,898**
Reconciliation of operating income to net cash used in operating activities:		
Net income	$ 229,228,790	$ 202,275,377
Adjustments to reconcile operating income to net cash provided by operating activities:		
Investment income, net of investment expenses	(243,539,163)	(205,739,886)
Increase in contributions receivable	(4,344,472)	(7,339,786)
Depreciation (non-investment)	1,091,513	1,049,022
Decrease (increase) in other assets	1,111,084	(2,644,951)
Increase (decrease) in accounts payable and accrued expenses	157,033	(180,644)
Increase in health care benefits incurred and unpaid	1,833,091	1,851,051
Increase in other liabilities	212,451	178,024
Total adjustments	(243,478,463)	(212,827,170)
Net cash used in operating activities	**$ (14,249,673)**	**$ (10,551,793)**

See accompanying notes to financial statements.

Financial Section

Notes To Financial Statements June 30, 1993 and 1992

(1) Description of the System

(A) Organization - The School Employees Retirement System of Ohio (SERS) is a cost-sharing multiple-employer public employee retirement system established by the Ohio General Assembly in 1937 to provide retirement benefits to employees of Ohio public schools who are not required to possess a certificate in order to perform their duties.

Responsibility for the organization and administration of SERS is vested in the Retirement Board. SERS is not considered part of the State of Ohio financial reporting entity. There is no financial interdependency with the State of Ohio, nor does the State of Ohio provide oversight authority for the System. The Retirement Board is the governing body of SERS. It is comprised of four elected employee-members, one elected retiree-member and two statutory members.

Employer and employee membership data as of June 30 follows:

Employer Members	**1993**	**1992**
Local	371	371
City	192	192
County	84	84
Village	49	49
Vocational	49	49
Technical	13	13
College	2	2
Other	4	4
Total	764	764

Employee Members	**1993**	**1992**
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	56,478	57,300
Current Employees		
Vested	60,809	57,848
Nonvested	38,326	39,649
Total	99,135	97,497

(B) Benefits - Members are eligible for retirement benefits based upon age and service credit as follows: age 60 and earning 5 years of service credit; between ages 55 and 60 and earning 25 years of service credit; or earning 30 years of service credit at any age. The benefit is equal to 2.1% of the member's final average salary, or a minimum of $86, multiplied by the number of years credited service. Members are eligible for disability benefits after completion of 5 years of service. Qualified dependents of a deceased member are eligible for monthly survivor benefits. Death benefits of $500 are payable upon the death of a retiree to a designated beneficiary.

Members with credited service in the State Teachers Retirement System (STRS) or Public Employees Retirement System (PERS) are eligible to receive transferred credited service and funds from either or both of those systems. Any service which is not concurrent with service within SERS will be included in the determination of retirement benefits. Similarly, a member with credited service and funds in SERS may transfer such service to STRS or PERS upon retirement.

Retirees of any of the five state retirement systems must contribute to SERS if they are employed in a non-certificated position in the public schools. These contributions are credited to a separate money purchase annuity payable after age 65 in either monthly payments, if the monthly amount is $25 or more, or in a lump sum.

Prior to July 1, 1986, all members receiving a benefit from SERS were eligible to receive health care benefits. Members who retire effective July 1, 1986 or later must have at least 10 or more years of service credit to qualify for the health care benefits. Effective July 1, 1989, 1) members retiring with more than 10 but less than 25 years of service credit were required to pay from 25% to 75% of the health insurance premium phased in over a period of five years and 2) the SERS portion of spouse and dependent health insurance premiums was reduced from 50% to 30%, over a five-year period.

(2) Summary of Significant Accounting Policies

SERS' financial statements are prepared using the accrual basis of accounting. The following are the significant accounting policies followed by SERS:

(A) Investments - Income on all investments is recognized on the

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

accrual basis. Gains and losses on sales and exchanges of investments are recognized on the transaction date. All investments are subject to adjustment for market declines determined to be other than temporary.

Investments in real estate funds are carried at cost or adjusted cost. Investments in venture capital are accounted for using the equity method.

Investments in fixed-income securities and mortgage loans are reported at amortized cost with discounts or premiums amortized using the constant yield method.

Investments in common and preferred stocks are carried at cost. Gains and losses on stock sales are recognized on the basis of the average cost of the stocks sold.

Investments in short-term obligations, principally commercial paper and U.S. Treasury bills, are carried at amortized cost, which approximates market value.

(B) Property and Equipment (Non-Investment Assets) - Property and equipment are stated at cost. Depreciation has been provided using the straight-line method over the following useful lives:

Description	Estimated Lives (years)
Furniture and equipment	3-10
Building and improvements	40

(C) Federal Income Tax Status - SERS is a qualified entity under Section 501(a) of the Internal Revenue Code and is therefore exempt from federal income taxes.

(D) Health Care Benefits Incurred and Unpaid - Amounts accrued for health care benefits payable are based upon estimates furnished by the claims administrator. Such estimates have been developed from prior claims experience.

(E) Reclassification - Certain 1992 balances have been reclassified to conform with 1993 presentation.

(3) Funding Status and Progress

The amount shown as the "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess SERS' funding status on a going-concern basis, assess progress being made in accumulating sufficient assets to pay benefits when due, and allow for comparisons among public employee retirement plans. The measure is independent of the actuarial funding method used to determine contributions to SERS.

The pension benefit obligation was determined as part of an actuarial valuation of the plan as of June 30, 1993 and 1992. There were no changes in actuarial assumptions or in actuarial funding methods used in the actuarial valuation of June 30, 1993 as compared to the assumptions used as of June 30, 1992. The following significant assumptions were used in the actuarial valuations as of June 30, 1993 and 1992:

Actuarial Assumption	
Rate of return on investments	7.75% compounded annually (net of administrative expenses).
Projected salary increases	4.75% compounded annually, attributable to inflation; additional increases ranging from 0% to 3% per year attributable to seniority and merit.
Post-retirement mortality	1971 Group Annuity Table projected to 1984 set back 1 year for women and men.
Rates of withdrawal from active service	Developed on basis of actual plan experience.
Health care premiums	4.75% annual increase with 25% of eligible female retirants and 60% of eligible male retirants electing joint survivor form of payment and 25% of eligible female retirants and 50% of eligible male retirants electing to cover spouse for health care.
Medicare	All recipients are eligible for Medicare on attainment of age 65 or immediately if retired for disability.

FINANCIAL SECTION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

At June 30, 1993, the unfunded pension benefit obligation was $3,123,504,830 as follows:

	Basic Retirement Benefits	Health Care Benefits	Total
Pension benefit obligation:			
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$2,369,169,783	$ 897,837,612	$3,267,007,395
Current employees:			
Accumulated employee contributions including allocated investment income	889,126,855	--	889,126,855
Employer financed - vested	1,475,534,958	596,717,893	2,072,252,851
Employer financed - non-vested	167,230,394	22,528,642	189,759,036
Total pension benefit obligation	4,901,061,990	1,517,084,147	6,418,146,137
Net assets available for benefits, at cost (market $3,810,192,007)	3,172,262,652	122,378,655	3,294,641,307
Unfunded pension benefit obligation	$1,728,799,338	$1,394,705,492	$3,123,504,830

At June 30, 1992, the unfunded pension benefit obligation was $2,916,196,198 as follows:

	Basic Retirement Benefits	Health Care Benefits	Total
Pension benefit obligation:			
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$2,222,708,335	$897,985,802	$3,120,694,137
Current employees:			
Accumulated employee contributions including allocated investment income	816,328,094	--	816,328,094
Employer financed - vested	1,338,490,167	517,506,562	1,855,996,729
Employer financed - non-vested	168,133,540	20,456,215	188,589,755
Total pension benefit obligation	4,545,660,136	1,435,948,579	5,981,608,715
Net assets available for benefits, at cost (market $3,480,633,466)	2,929,858,536	135,553,981	3,065,412,517
Unfunded pension benefit obligation	$1,615,801,600	$1,300,394,598	$2,916,196,198

FINANCIAL SECTION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(4) Contributions

The Ohio Revised Code requires contributions by active members and their employers. Contribution rates are established by the Retirement Board within the allowable rates established by the Ohio Revised Code. The adequacy of employer contribution rates is determined annually by actuarial valuation using the entry age normal cost method. Active members and their employers are required to contribute 9% and 14%, respectively, of active member payroll.

The current employer contribution rate is allocated to basic retirement benefits and health care by the Retirement Board. For fiscal year 1993 the allocation of the employer contribution rate to basic retirement benefits has been established as the rate necessary to cover normal cost, plus an amortization of the unfunded actuarial accrued liabilities over a 40-year period. Based on this decision, the current employer contribution rate (14%) is allocated 9.13% to basic benefits and the remaining 4.87% is allocated to health care benefits. The contribution rate allocated to health care, plus the additional rate of contribution provided by the health care surcharge, is sufficient to cover normal cost and provide level cost financing of the unfunded actuarial accrued liabilities.

Significant actuarial assumptions used to determine the adequacy of contribution rates were the same as those used to compute the standardized measure of the pension benefit obligation.

Employer and employee contributions required and made represented 14% and 9%, respectively, of active member payroll and amounted to $187,110,000 and $120,285,000, respectively, in 1993. The employer contribution consisted of $87,474,359 for normal cost and $99,635,641 for amortization of the unfunded actuarial accrued liability. The employee contributions are applied to normal cost.

The health care surcharge on employers is collected for employees earning less than an actuarially determined minimum pay, pro-rated according to service credit earned (for fiscal years 1993 and 1992 the minimum has been established as $9,900). The amount of the surcharge accrued for fiscal years 1993 and 1992 and included in contribution revenue from employers in the Statements of Revenues, Expenses and Changes in Fund Balance is $19 million and $21 million, respectively.

Employee contributions may be refunded, without interest, to a member who withdraws from SERS or to the member's beneficiary following the member's death.

(5) Cash Deposits, Investments and Securities Lending

(A) Cash Deposits

By statute, the Treasurer of State of Ohio (Treasurer) serves as custodian for all SERS deposits. Deposits are classified into three categories of credit risk to give an indication of the level of risk assumed by SERS. Category 1 includes deposits insured or collateralized with securities held by SERS or its agent in the name of SERS. Category 2 includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the name of the Treasurer. Category 3 includes deposits which are uncollateralized.

As of June 30, 1993, the carrying amount of the SERS' deposits was $1,811,826 and the bank balance was $2,470,606. The carrying amount of deposits is separately displayed on the balance sheet as "Cash". Balances held in each category are as follows:

	Carrying Amount	Bank Balance
Insured (FDIC)	$100,000	$100,000
Uncollateralized	1,711,826	2,370,606
Total Deposits	$1,811,826	$2,470,606

(B) Investments

SERS is authorized to invest in bonds, notes, certificates of indebtedness, mortgage notes, real estate, stocks, shares, debentures, or other obligations or securities as set forth in the Ohio Revised Code.

Market values of securities are based primarily on quotations from national security exchanges and securities pricing services. Market values of investments in the real estate and venture capital funds are based on information provided by fund managers.

In accordance with Statement No. 3 of the Governmental Accounting Standards Board, SERS' investments are categorized to give an indication of the level of risk assumed by SERS at year-end. Category 1 includes

Financial Section

Notes To Financial Statements (Continued)

investments that are insured or registered, with securities held by the Treasurer or custodial agent bank in SERS' name. Category 2 includes uninsured and unregistered investments, with securities held by the counterparty's trust department or agent in SERS' name. Category 3 includes uninsured and unregistered investments, with securities held by the counterparty, or by its trust department or agent, but not in SERS' name.

In accordance with a contractual relationship between the Treasurer and a custodial agent bank, all securities subject to categorization are Category 1 investments held in book entry form in a unique account so as to be identified at all times as the possession of SERS. Direct mortgage loans, securities on loan contracts, real estate funds, and venture capital funds are investments which by their nature are not categorized for level of risk purposes.

The following investment summary identifies the level of risk assumed by SERS:

	Category 1	Category 2	Category 3	Total	Market Value
U.S. government obligations and U.S. government agency obligations	$119,410,550			$119,410,550	$131,236,565
FHLMC & GNMA mortgage-backed securities	566,725,076			566,725,076	615,549,930
Corporate bonds and notes	274,153,719			274,153,719	293,485,498
Canadian bonds	82,637,931			82,637,931	84,622,368
Common and preferred stock	1,011,839,183			1,011,839,183	1,683,475,952
Short-term securities	284,438,450			284,438,450	284,438,450
Total	$2,339,204,909	0	0	2,339,204,909	3,092,808,763
Securities on loan contracts				442,001,040	492,176,052
Real estate funds				284,013,244	251,121,025
Direct mortgage loans				25,742,808	25,827,033
Venture capital investments				29,495,057	29,495,057
Total				$3,120,457,058	$3,891,427,930

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(C) Securities Lending

The System participates in a security lending program, administered by the custodial agent bank, whereby certain securities are transferred to an independent broker/dealer (borrower) in exchange for collateral equal to no less than 102% of the market value of the loaned securities. The System has minimized its exposure to credit risk due to borrower default by having the custodial agent bank determine daily that required collateral meets 100% of the market value of securities on loan.

Securities under loan are maintained in SERS' financial records. As SERS does not trade or sell the collateral received under the lending program, such collateral is not considered an asset of the system and a corresponding liability is not required on the balance sheet.

The System has not experienced any losses due to credit or market risk on security lending activity since implementation of the program. The market value of securities loaned to brokers/dealers at June 30, 1993 totaled $492.2 million. Security lending income totaled $383,345 and $530,528, for the years ended June 30, 1993 and 1992, respectively.

(6) Real Estate Leases

The following is a summary of minimum future lease revenues on noncancelable operating leases related to SERS' investment in real estate as of June 30, 1993 assuming no option renewals or replacements of existing leases upon expiration dates:

Year ending June 30,	
1994	$12,445,000
1995	10,430,000
1996	8,524,000
1997	6,053,000
1998	3,329,000
1999 and subsequent years	10,319,000
Total minimum future lease revenues	$51,100,000

(7) Property and Equipment (Non-Investment Assets)

A summary of property and equipment at June 30 follows:

	1993	**1992**
Land	$1,178,055	$1,178,055
Building and improvements	4,081,532	3,976,480
Furniture and equipment	6,184,935	6,003,893
	11,444,522	11,158,428
Less accumulated depreciation	6,072,330	5,235,575
	$5,372,192	$5,922,853

Financial Section

Notes To Financial Statements (Continued)

(8) Adjustment to Investment Real Estate

During the years ended June 30, 1993 and 1992, SERS adjusted the carrying values of certain real estate investment properties for market declines determined to be other than temporary. The adjusted values more closely reflect the current market values of these properties determined by an independent real estate appraisal process. The net adjustment resulted in writedowns of $4,266,087 and $18,418,242, for the years ended June 30, 1993 and 1992, respectively.

(9) Deferred Compensation

Employees of SERS may elect to participate in the Ohio Public Employees Deferred Compensation Program (Program), created in accordance with Internal Revenue Code Section 457. Under the Program, employees may elect to defer a portion of their pay until a later date, usually after retirement. The deferred pay and any income earned thereon is not subject to income taxes until actually received by the employee.

As of June 30, 1993, market value of investments in the Program totaled $1,332,697 and have been included in other assets. Under the terms of the Program agreement, these monies are subject to the claims of SERS' general creditors. Accordingly, this amount is reflected as an asset along with a corresponding liability to the employees participating in the Program. Participating employees are general creditors of SERS with no preferential claim to the deferred funds. Investments in the Program are held by the Program's agent in SERS' name.

(10) Defined Benefit Pension Plan

All SERS employees participate in the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer public employee retirement system. The payroll for employees covered by PERS for the year ended June 30, 1993 was $3,813,210; SERS' total payroll was $3,933,071.

Employees are eligible for retirement benefits at age 60 with 5 more years of service credit or at any age with 30 or more years of service. The annual benefit is based on 2.1% of final average salary multiplied by the years of service credit for the first 30 years of credited service, and 2.5% for each additional year of credited service up to a maximum of 100% of final average salary or the limits under Internal Revenue Code Section 415. Employees retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit amounts. PERS also provides disability and survivor benefits. Benefits are established by state statutes.

SERS and employee contributions for the year ended June 30, 1993 were $516,690 and $324,123, respectively; these contributions represented 13.55% and 8.5% of covered employee payroll, respectively, as required by state statute. Rates are established by the PERS retirement board upon recommendation by the actuary. Changes in actuarial assumptions regarding salary increases attributable to inflation and seniority/merit were adopted in the most recent actuarial study (December 31, 1991). There were no other changes in actuarial assumptions, benefit provisions, actuarial funding methods or other significant factors. During the fiscal year 1993 the contribution rates established by the retirement board and those computed by the actuary were the same.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits, excluding health care benefits, and is intended to help users assess PERS' funding status on a going-concern basis, assess progress being made in accumulating sufficient assets to pay benefits when due, and allow for comparisons among public employee retirement plans. The measure is independent of the actuarial funding method used to determine contributions to PERS.

PERS does not make separate measurements of assets and pension benefit obligation for individual employers. The pension benefit obligation as of December 31, 1991, the date of the most recent actuarial valuation, for

FINANCIAL SECTION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

PERS as a whole was $19.8 billion. PERS' net assets available for benefits (excluding amounts allocated to health care costs) on that date were $18.5 billion, leaving an unfunded pension benefit obligation of $1.3 billion. PERS does not hold any securities in the form of notes, bonds or other instruments of any of the entities contributing to PERS. SERS' contribution represented less than 1 percent of total contributions required of all participating entities.

PERS' Comprehensive Annual Financial Report for the year ended December 31, 1992 contains historical trend information for six years only.

In addition to pension benefits, PERS provides post-employment health care benefits, in accordance with state statutes, to all employees who retire with 10 or more years of qualifying Ohio service credit and to disability recipients. At December 31, 1992 the plan had approximately 350,000 participants.

A portion of each employer's contribution to PERS is set aside for the advanced funding of post-employment health care. Of the 13.55% of employee payroll contributed by SERS to PERS, 5.11%, or approximately $195,000, was the portion used to fund health care. Statutory rates equal the actuarially determined contribution requirements.

The actuarial present value of accrued post-employment benefits was determined based on the entry age normal method of funding. Significant actuarial assumptions used in the December 31, 1991 valuation (most recent available) were (a) investment rate of return of 7.75%, (b) investments valued at cost or amortized cost, adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets, (c) no change in the number of active employees, (d) base pay rate increases of 5.25% and annual pay increases over and above the 5.25% base increase ranging from 0% to 5.1%, and (e) health care increases of 5.25% annually.

The total PERS' actuarial present value of accrued post-employment benefits as of December 31, 1991 was $6.44 billion; the net assets available for these benefits at that date were $4.99 billion.

(11) Compensated Absences

As of June 30, 1993 and 1992, $278,221 and $232,421, respectively, was accrued for unused vacation and sick leave for SERS' employees. Employees who retire or resign are entitled to full compensation for all earned unused vacation. Unused sick leave pay is forfeited upon termination. However, employees who retire, become disabled or deceased after five years of service are entitled to receive payment for a percentage of unused sick leave.

In November 1992, the Governmental Accounting Standards Board issued Statement No. 16 "Accounting For Compensated Absences". The statement requires recognition of a liability for compensated absences that are attributable to services already rendered and are not contingent on a specific event which is outside of the control of the employer and employee.

SERS adopted Statement No. 16 for the year ended June 30, 1993 and has restated the financial statements presented for the prior year in accordance with guidance provided in the statement. The implementation of Statement No. 16 resulted in an adjustment of $218,221 to the July 1, 1992 beginning fund balance.

(12) Contingent Liabilities

SERS is a party in various litigation. While the final outcome cannot be determined at this time, management is of the opinion that the liability, if any, for these legal actions will not have a material adverse effect on SERS' financial position.

(13) Historical Trend Information

Historical trend information designed to provide information about SERS' progress made in accumulating sufficient assets to pay benefits when due is presented immediately following the notes to the financial statements.

FINANCIAL SECTION

ANALYSIS OF FUNDING PROGRESS

GASB Statement No. 5 requires the presentation of ten years of comparative actuarial statistical data, disclosing the progress made in accumulating assets to pay benefits when due. Schedule I presents nine years since ten years are not available.

SCHEDULE I

Basic Retirement Benefits ($ Amounts in Millions)

Fiscal Year	(1) Net Assets Available for Benefits	(2) Pension Benefit Obligation	(3) Percentage Funded (1) divided by (2)	(4) Unfunded Pension Benefit Obligation (2) minus (1)	(5) Covered Payroll	(6) Unfunded Pension Benefit Obligation as a Percent of Covered Payroll (4) divided by (5)
1985	$1,556	$2,257	68.9%	$701	$804	87.2%
1986	1,747	2,511	69.9	764	869	87.9
1987	1,930	2,646	72.9	716	931	76.9
1988*	2,107	3,017	69.9	910	982	92.6
1989	2,311	3,346	69.1	1,035	1,055	98.1
1990	2,513	3,662	68.6	1,149	1,119	102.7
1991**	2,722	4,214	64.6	1,492	1,176	126.8
1992	2,930	4,546	64.5	1,616	1,244	129.9
1993	3,172	4,901	64.7	1,729	1,313	131.7

Health Care Benefits ($ Amounts in Millions)

Fiscal Year	(1)	(2)	(3)	(4)	(5)	(6)
1985	$120	$656	18.3%	$536	$804	66.7%
1986	129	830	15.5	701	869	80.7
1987	133	1,006	13.2	873	931	93.8
1988*	133	991	13.4	858	982	87.4
1989	144	1,065	13.5	921	1,055	87.3
1990	149	1,135	13.1	986	1,119	88.1
1991**	141	1,241	11.4	1,100	1,176	93.5
1992	135	1,436	9.5	1,300	1,244	104.6
1993	122	1,517	8.0	1,395	1,313	106.2

* In fiscal 1988, plan benefit provisions were amended. The amendments had the effect of increasing the pension benefit obligation for basic benefits by $119.8 million, and decreasing the pension benefit obligation for health care by $199.3 million.
** Changes to actuarial assumptions for fiscal 1991 increased the pension benefit obligation for basic benefits by $49.5 million and for health care by $7.0 million.

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation (both basic retirement and health care benefits), and unfunded pension benefit obligation in isolation can be misleading.
Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of SERS' funding status on a going-concern basis. Analysis of this percentage over time indicates whether SERS is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger SERS is. Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of SERS' progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger SERS is.

The actuarial assumptions for investment return, post-retirement mortality, and participation in health care premiums are revised periodically based on SERS' experience.

See accompanying independent auditors' report.

FINANCIAL SECTION

SCHEDULE II

REVENUES BY SOURCE

Fiscal Year	Member Contributions	Employer Contributions	Investment Income	Other Revenues	Total	Employer Contribution Rate as a Percent of Covered Payroll
1984	$67,503,890	$106,886,556	$145,215,463	$2,944,271	$322,550,180	14.0%
1985	73,117,682	119,145,737	153,934,029	3,004,376	349,201,824	14.0
1986	78,979,863	130,507,996	171,115,676	3,333,819	383,937,354	14.0
1987	84,848,170	135,032,693	175,493,200	2,521,825	397,895,888	14.0
1988	89,667,853	145,784,980	161,724,032	2,280,893	399,457,758	14.0
1989	96,422,050	171,094,710	193,830,887	2,448,403	463,796,050	14.0
1990	104,105,361	180,544,371	196,527,043	2,569,782	483,746,557	14.0
1991	109,310,197	188,465,132	201,820,479	1,981,749	501,577,557	14.0
1992	117,331,597	202,421,912	205,739,886	2,283,675	527,777,070	14.0
1993	123,270,559	210,429,351	243,539,163	2,363,874	579,602,947	14.0

EXPENSES BY TYPE

Fiscal Year	Benefits	Administrative Expenses	Transfers to other Ohio Retirement Systems	Refunds	Other	Total
1984	$131,848,435	$4,658,760	$1,181,012	$7,827,632	$879,498	$146,395,337
1985	146,785,150	5,673,205	1,486,990	8,373,795	0	162,319,140
1986	166,606,773	5,863,596	1,901,100	9,058,221	0	183,429,690
1987	192,787,851	6,599,526	1,498,114	10,267,756	0	211,153,247
1988	204,178,239	6,689,009	2,131,150	9,791,762	0	222,790,160
1989	227,333,363	7,419,675	1,630,410	11,468,175	0	247,851,623
1990	255,285,627	7,942,036	1,983,908	12,532,925	0	277,744,496
1991	276,925,099	8,565,124	2,202,383	12,345,363	0	300,037,969
1992	302,422,078	8,586,487	1,741,637	12,751,491	0	325,501,693
1993	324,386,556	9,726,019	2,747,590	13,513,992	0	350,374,157

See accompanying independent auditors' report.

Financial Section

Administrative Expenses

Schedule III

Years ended June 30, 1993 and 1992	1993	1992
Personnel services:		
Salaries and wages	$ 3,933,071	$ 3,589,130
Retirement contributions	516,690	476,318
Insurance	501,832	436,274
Total personnel services	4,951,593	4,501,722
Professional services:		
Technical and actuarial	530,610	436,970
Medical	321,332	248,207
Auditing	61,394	60,000
Employee training	61,470	29,940
Total professional services	974,806	775,117
Communications:		
Postage	450,795	394,634
Printing and publications	50,676	116,906
Telephone	160,559	55,911
Retirement counseling services	7,632	10,321
Total communications	669,662	577,772
Other services and charges:		
Computer support services	1,028,990	798,428
Building occupancy and maintenance	301,580	295,473
Transportation and travel	195,292	141,485
Supplies	92,864	94,267
Equipment rental	92,463	92,613
Surety bonds and insurance	101,898	98,098
Memberships and subscriptions	51,712	52,039
Equipment repairs and maintenance	39,178	41,864
Retirement study commission	24,085	25,546
Miscellaneous	110,383	43,041
Total other services and charges	2,038,445	1,682,854
	8,634,506	7,537,465
Depreciation (non-investment):		
Furniture and equipment	986,755	947,939
Building	104,758	101,083
Total depreciation	1,091,513	1,049,022
Total administrative expenses	**$ 9,726,019**	**$ 8,586,487**

See accompanying independent auditors' report.

FINANCIAL SECTION

INVESTMENT SUMMARY

SCHEDULE IV

YEAR ENDED JUNE 30, 1993

	1992 Carrying Value	1992 Market Value	Purchases and Accretions	Sales, Redemptions and Accruals	1993 Carrying Value	1993 Market Value	% of Total Market Value
Corporate and government bonds and obligations	$692,570,598	$736,032,966	$524,290,850	$(387,076,320)	$829,785,128	$886,762,868	22.7%
First mortgage loans and mortgage-backed securities	703,421,270	767,800,836	114,111,147	(225,064,533)	592,467,884	641,376,962	16.5
Common and preferred stocks	1,006,146,918	1,570,206,304	199,346,950	(120,335,854)	1,085,158,014	1,783,134,287	45.8
Short-term investments	209,791,151	209,791,151	2,394,541,964	(2,304,795,385)	299,537,730	299,537,730	7.7
Real estate funds	271,917,153	263,558,486	130,792,267	(118,696,176)	284,013,244	251,121,025	6.5
Venture capital investments	29,588,718	29,588,718	8,602,683	(8,696,343)	29,495,058	29,495,058	0.8
Total investments	**$2,913,435,808**	**$3,576,978,461**	**$3,371,685,861**	**$(3,164,664,611)**	**$3,120,457,058**	**$3,891,427,930**	**100.0%**

YEAR ENDED JUNE 30, 1992

	1991 Carrying Value	1991 Market Value	Purchases and Accretions	Sales, Redemptions and Accruals	1992 Carrying Value	1992 Market Value	% of Total Market Value
Corporate and government bonds and obligations	$648,153,828	$664,747,620	$349,971,985	$(305,555,215)	$692,570,598	$736,032,966	20.5%
First mortgage loans and mortgage-backed securities	701,079,284	740,836,463	183,163,746	(180,821,760)	703,421,270	767,800,836	21.5
Common and preferred stocks	918,987,320	1,361,391,374	122,215,266	(35,055,668)	1,006,146,918	1,570,206,304	43.9
Short-term investments	115,540,723	115,540,723	2,192,866,395	(2,098,615,967)	209,791,151	209,791,151	5.9
Real estate funds	308,517,593	318,149,920	12,892,537	(49,492,977)	271,917,153	263,558,486	7.4
Venture capital investments	26,793,213	25,291,713	5,447,625	(2,652,120)	29,588,718	29,588,718	0.8
Total investments	**$2,719,071,961**	**$3,225,957,813**	**$2,866,557,554**	**$(2,672,193,707)**	**$2,913,435,808**	**$3,576,978,461**	**100.0%**

See accompanying independent auditors' report.

Financial Section

Fund Balance Accounts

Schedule V

Description of Accounts (Funds)

Chapter 3309 of the Ohio Revised Code requires the establishment and maintenance of specific funds. These funds are classified as accounts for financial reporting purposes and are noted as follows:

(A) Employees' Savings Fund

The Employees' Savings Fund accumulates the contributions deducted from the compensation of members. Contributions may be refunded to a member who withdraws from SERS or to the member's beneficiary following the member's death. Upon retirement, a member's accumulated contributions are transferred to the Annuity and Pension Reserve Fund.

(B) Employers' Trust Fund

The Employers' Trust Fund is the depository for employer contributions. Based on actuarial valuations, amounts are transferred out of this fund into the Annuity and Pension Reserve Fund and the Survivors' Benefit Fund.

(C) Annuity and Pension Reserve Fund

The Annuity and Pension Reserve Fund is the fund from which all retirement, health care and death benefits are paid. Funds are transferred into the Annuity and Pension Reserve Fund from the Employees' Savings Fund and the Employers' Trust Fund.

(D) Survivors' Benefit Fund

The Survivors' Benefit Fund represents amounts transferred from the Employees' Savings Fund and the Employers' Trust Fund for the payment of survivors' benefits.

(E) Guarantee Fund

The Guarantee Fund records all investment earnings of SERS. Annually, investment earnings are transferred to the Annuity and Pension Reserve Fund, the Survivors' Benefit Fund, and the Expense Fund.

(F) Expense Fund

The Expense Fund is used to record all expenses for the administration and management of SERS. Annually, funds are transferred from the Guarantee Fund to cover expenses incurred.

A summary of the fund balance accounts follows:

Year ended June 30, 1993

	Employees' Savings Fund	Employers' Trust Fund	Annuity and Pension Reserve Fund	Survivors' Benefit Fund	Guarantee Fund	Expense Fund	Total 1993	Total 1992
Fund balance at beginning of year	$816,328,094	$(707,566,617)	$2,800,281,536	$156,369,504	-	-	$3,065,412,517	$2,863,137,140
Changes for the year:								
Contributions:								
Employers	-	210,429,351	-	-	-	-	210,429,351	202,421,912
Employees	123,270,559	-	-	-	-	-	123,270,559	117,331,597
State of Ohio subsidies	-	-	674,998	39,367	-	-	714,365	794,224
Investment income	-	-	-	-	243,539,163	-	243,539,163	205,739,886
Transfers from other Ohio systems	-	-	1,593,208	56,301	-	-	1,649,509	1,489,451
Benefits:								
Retirement	-	-	(198,878,409)	-	-	-	(198,878,409)	(185,750,980)
Disability	-	-	(24,987,872)	-	-	-	(24,987,872)	(22,258,565)
Survivor	-	-	-	(12,666,260)	-	-	(12,666,260)	(11,814,421)
Health care	-	-	(87,079,286)	-	-	-	(87,079,286)	(81,851,492)
Death	-	-	(774,729)	-	-	-	(774,729)	(746,620)
Refunds of employee contributions	(13,432,668)	-	(81,324)	-	-	-	(13,513,992)	(12,751,491)
Administrative expenses	-	-	-	-	-	(9,726,019)	(9,726,019)	(8,586,487)
Transfers to other Ohio systems	-	-	(2,618,256)	(129,334)	-	-	(2,747,590)	(1,741,637)
Other transfers	(37,039,130)	(210,225,492)	457,907,371	23,170,395	(243,539,163)	9,726,019	-	-
Net changes	72,798,761	203,859	145,755,701	10,470,469	-	-	229,228,790	202,275,377
Fund balance at end of year	**$889,126,855**	**$(707,362,758)**	**$2,946,037,237**	**$166,839,973**	-	-	**$3,294,641,307**	**$3,065,412,517**

See accompanying independent auditors' report.

ACTUARIAL SECTION

ACTUARY'S LETTER

STATEMENT OF ACTUARY

ACTUARIAL SECTION

ACTUARY'S LETTER

GABRIEL, ROEDER, SMITH & COMPANY
Actuaries & Consultants
24 Woodbine Avenue • Northport, New York 11768 • 516-757-0047

November 15, 1993

The Retirement Board
School Employees Retirement System of Ohio
Columbus, Ohio

The basic financial objective of SERS is to establish and receive contributions which, expressed as percents of active member payroll, will remain approximately level from generation to generation of Ohio citizens.

In order to determine SERS present financial position and level contribution rates for the future, annual actuarial valuations are made. The latest completed actuarial valuation is based upon data and assumptions as of June 30, 1993. The data was supplied by System staff. While not verifying the data at the source, tests were performed for consistency and reasonability. Conditions and results are shown in our reports.

Assumptions concerning future financial experiences are needed for an actuarial valuation. These assumptions are established by the Board after consulting with the actuary. A program of annual actuarial gain/loss analysis is in operation; these analyses determine the relationship between assumed financial experience and actual experience, for each major risk area. These actuarial gain/loss findings led to the adoption of substantial revised assumptions for the June 30, 1991 actuarial valuation. The assumed premiums for health care coverages are changed annually as premiums are changed by health care providers.

The statutory employer contribution rate is 14% of pay. An SERS policy decision now provides the following allocations: to basic benefits, the portion which will pay normal cost and 40 year amortization for unfunded actuarial accrued liabilities; and to health care benefits, the remainder of employer contributions.

On the basis of the 1993 valuation and the basic benefits and allocated contribution rates then in effect, it is our opinion that the basic benefits portion of SERS is in sound condition in accordance with actuarial principles of level cost financing.

The financial condition of health care benefits is different, and is being significantly affected by the provisions of Act 290 of 1988. Act 290 established a health care surcharge, a program to determine a minimum annual pay for use in calculating employer contribution dollars.

On the basis of the 1993 valuation and the health care benefits and allocated contribution rates then in effect, the allocated contributions are sufficient to provide level percent financing of the health care benefits if future health care cost inflation does not exceed future general price inflation.

Respectfully submitted,

Thomas J. Cavanaugh, F.S.A.

TJC/kq

Actuarial Section

Statement of Actuary (Valuation as of June 30, 1993)

Actuarial Cost Method and Assumptions

Basic Retirement Benefits

Employer contributions rates for basic benefits are determined using the entry age normal actuarial cost method. This method produces an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by employees during the current service year), and (2) the amount for amortization of the unfunded actuarial accrued liability. The maximum statutory rate is 14%.

The present employer contribution rate of 14% is allocated between basic benefits and health care on the basis of SERS policy decision. The current policy requires the determination of a rate for basic benefits which will amortize the unfunded actuarial accrued liabilities over a 40-year period, with the remainder of the employer contribution rate allocated to providing health care benefits. At June 30, 1993, the rate thus determined for the funding of basic retirement benefits is 9.13%.

Health Care Benefits

Initially, beginning in 1974, the contribution rate for health care benefits was established at 0.75%, included in a total employer contribution rate of 12.5%. Health care contribution rates have been increased at various times since 1974, and the total employer contribution rate has been increased to the statutory 14% maximum. The portion of the employer contribution rate allocated to health care currently is 4.87%, which is insufficient by itself to provide level cost financing of the unfunded actuarial accrued health care liabilities. This is primarily due to the relatively low average salaries of the SERS contributing members.

Recent Ohio legislation, Act 290 of 1988, provided for an employer contribution surcharge to fund health care benefits. The surcharge is equal to 14% of the difference between the minimum pay and the member's pay, pro-rated for partial service credit. For the fiscal years 1993 and 1994, the minimum pay has been established as $9,900 and $10,400, respectively. The surcharge rate, added to the unallocated portion of the 14% employer contribution rate, results in a total health care contribution rate of 6.01%. This rate is sufficient to provide level cost financing of the unfunded actuarial accrued liabilities for health care benefits assuming future health care cost inflation does not exceed future general price inflation.

Actuarial Assumptions

The assumptions used for the actuarial valuation were adopted by the Retirement Board after consulting with the actuary. Current assumptions were adopted as of the June 30, 1991 valuation. Differences between assumed and actual experience (actuarial gains and losses) become part of unfunded actuarial accrued liabilities. When these differences between assumed and actual experience have been observed to be sizable and persistent, a change is made to the actuarial assumptions.

The valuation assets as of June 30, 1993 were determined on a market-related basis. The method used recognizes 20% of the previously unrecognized gains and losses (both realized and unrealized). To this was added the present value of expected future payments for House Bills 284 and 204, or $3,028,036.

The following significant assumptions were used in the actuarial valuations as of June 30,1993:

(1) a rate of return on the investments of 7.75% compounded annually (net after administrative expenses). The real rate of return is the portion of total investment return which is more than the inflation rate. Considering inflation recognition of 4.75 percent, the 7.75 percent investment return rate translates to an assumed real rate of return of 3 percent;

(2) projected salary increases of 4.75%, compounded annually, attributable to inflation;

(3) additional projected salary increases ranging from 0% to 3% per year, attributable to seniority and merit. Pay increase assumptions for individual active members are shown for sample ages in the following table.

Increase Next Year

Sample Age	Merit & Seniority	Base (Economy)	Total
20	3.0%	4.75%	7.75%
30	2.3	4.75	7.05
40	1.8	4.75	6.55
50	1.0	4.75	5.75
60	0.0	4.75	4.75

Actuarial Section

Statement Of Actuary (Continued) (Valuation as of June 30, 1993)

(4) eligibility for age and service retirement was assumed to be: age 50 with 30 or more years of service; age 55 with 25 or more years of service, or age 60 with 5 or more years of service. Probabilities of retirement with age and service allowance are shown in the following table for sample ages.

Probabilities of Age & Service Retirement
Percent of Eligible Active Members Retiring within Next Year

Sample Ages	Men	Women
50	15%	12%
55	10	18
60	10	25
65	40	35
70	50	50
75	100	100

(5) mortality of participants based on the 1971 Group Annuity Mortality Table projected to 1984 set back one year for women and men;

(6) rates of separation from active service before retirement are developed on the basis of actual plan experience. Probabilities of separation for sample ages are shown in the following table.

Probabilities of Separation from Active Employment before Age & Service Retirement
Percent of Active Members Separating within Next Year

Men

Sample Ages	Death	Disability	Other
20	0.02%	0.00%	6.09%
30	0.04	0.06	4.60
40	0.08	0.36	3.42
50	0.24	0.80	3.06
60	0.60	--	2.20

Women

Sample Ages	Death	Disability	Other
20	0.01%	0.00%	8.04%
30	0.02	0.00	6.31
40	0.04	0.14	3.95
50	0.08	0.32	2.67
60	0.21	--	2.66

(7) premiums and spouse coverage deductions are assumed to increase at 4.75% annually;

(8) 25% of eligible female retirants and 60% of eligible male retirants are assumed to elect a joint and survivor form of payment;

(9) 25% of eligible female retirants and 50% of eligible male retirants are assumed to elect to cover spouses for health care. The System will pay the premium for dependents less a deduction during the life of the retirant;

(10) eligibility of all health care benefit recipients for Medicare on attainment of age 65, or immediately if retired for disability.

Health Care Premium Rates:

Status	Monthly Rates Reported 1993	1992
Benefit recipient below age 65	$385.14	$337.65
Spouse below age 65*	69.74	57.73
Benefit recipient above age 65 and eligible for Medicare .	55.09	60.33
Spouse above age 65 and eligible for Medicare*	15.58	17.27
Mail order prescription service	42.34	37.07

*System portion

Medicare Part B Premium: $24.80 per month. (This premium is paid by the System.)

The actuarial assumptions used in making the valuation were revised as set forth in the Gabriel, Roeder, Smith & Company Investigation Report dated June 3, 1991 for the period from July 1, 1985 through June 30, 1990.

STATEMENT OF ACTUARY (CONTINUED) (VALUATION AS OF JUNE 30, 1993)

Actuarial Accrued Liabilities

Accrued liabilities are the present value of plan promises to pay benefits in the future, based upon service already rendered. A liability has been established (accrued) because the service has been performed, but the resulting monthly cash benefit may not be payable until years in the future. Accrued liabilities are the result of complex mathematical calculations performed by a group of specialists, the plan's actuaries. The results of the computed actuarial accrued liabilities, using the entry age normal actuarial cost method, are disclosed in the following schedule.

ACTUARIAL ACCRUED LIABILITIES JUNE 30, 1993

Present Value of	Health Care	Basic Benefits
Future monthly benefits and death benefits to present retirants and survivors	$851,839,415	$2,261,037,795
Monthly benefits and refunds to present inactive members	45,998,197	108,131,988
Service allowances and health care benefits to present active members	864,181,364	2,508,148,462
Disability allowances and health care benefits to present active members	24,959,442	104,106,514
Death-after-retirement benefit ($500) on behalf of present active members	-	1,375,528
Survivor benefits on behalf of present active members who die before retiring	13,675,741	32,816,839
Refunds of member contributions of present active members	-	35,916,998
Benefits for present active members	$902,816,547	$2,682,364,341
Benefits for present covered persons	$1,800,654,159	$5,051,534,124

Membership Data

Information regarding active, inactive, and retired members is obtained from computer tapes provided by the retirement system. Membership data contained on the computer tapes is examined and tested for reasonableness.

Active Member Valuation Data, 1984 to 1993

Actuarial Valuation as of June 30	Number of Active Members	Annual Payroll (millions)	Average Annual Salary
1984	84,761	$737.3	$8,699
1985	86,838	804.2	9,261
1986	88,310	869.1	9,482
1987	89,534	931.4	10,403
1988	90,418	981.8	10,858
1989	91,778	1,055.4	11,500
1990	93,147	1,118.7	12,010
1991	93,574	1,176.2	12,570
1992	97,497	1,244.3	12,762
1993	99,135	1,312.7	13,242

Retirants and Beneficiaries Added To and Removed From Rolls, 1984 to 1993

Fiscal Year Ended June 30	Additions During Year	Deletions During Year	Number at End of Year
1984	3,145	1,315	36,800
1985	3,233	1,325	38,708
1986	3,807	1,478	41,037
1987	3,155	1,522	42,670
1988	3,512	2,215	43,967
1989	3,140	1,432	45,675
1990	3,714	2,072	47,317
1991	3,534	2,384	48,467
1992	3,488	2,360	49,595
1993	2,596	1,786	50,405

Actuarial Section

Statement of Actuary (Continued)
(Valuation as of June 30, 1993)

Summary of Unfunded Accrued Liabilities

Each time a new benefit is added which applies to service already rendered, an "unfunded accrued liability" is created. Laws governing the System require that these unfunded accrued liabilities be financed systematically over a period of future years. Also, if actual financial experiences are less favorable than assumed financial experiences, the difference is added to unfunded accrued liabilities.

In an inflationary economy, the value of the dollar is decreasing. This environment results in employee pay increasing in dollar amounts, retirement benefits increasing in dollar amounts, and then unfunded accrued liabilities increasing in dollar amounts; all at a time when the actual substance of these items may be decreasing.

Looking at just the dollar amounts of unfunded accrued liabilities can be misleading. Unfunded accrued liabilities divided by active employee payroll provides an index which clarifies understanding. The smaller the ratio of unfunded liabilities to active member payroll, the stronger the system. Observation of this relative index over a period of years will give an indication of whether the system is becoming financially stronger or weaker.

Basic Benefits ($ In Millions)

Valuation Year	Actuarial Accrued Liabilities (AAL)	Valuation Assets	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Active Member Payroll	UAAL as a % of Active Member Payroll
1984	$2,166	$1,390	$776	64%	$737	105%
1985	2,405	1,564	841	65	804	105
1985*	2,422	1,564	858	65	804	107
1986	2,670	1,781	889	67	869	102
1987	2,899	2,007	892	69	931	96
1988#	3,307	2,204	1,103	67	982	112
1989	3,658	2,438	1,220	67	1,055	116
1990	4,003	2,686	1,317	67	1,119	118
1991	4,265	3,015	1,250	71	1,176	106
1991*	4,346	3,015	1,331	69	1,176	113
1992	4,693	3,330	1,363	71	1,244	110
1993	5,052	3,673	1,379	73	1,313	105

Health Care Benefits ($ In Millions)

Valuation Year	Actuarial Accrued Liabilities (AAL)	Valuation Assets	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Active Member Payroll	UAAL as a % of Active Member Payroll
1984	$627	$108	$519	17%	$737	70%
1985	681	120	561	18	804	70
1985*	760	120	640	16	804	80
1986	865	131	734	15	869	85
1987	1,051	137	914	13	931	98
1988#	1,051	139	912	13	982	93
1989	1,128	152	976	14	1,055	93
1990	1,205	158	1,047	13	1,119	94
1991	1,295	157	1,138	12	1,176	97
1991*	1,311	157	1,154	12	1,176	98
1992	1,518	154	1,364	10	1,244	110
1993	1,801	141	1,660	8	1,313	126

* Revised Assumptions
# Legislated Benefit Increases

Actuarial Section

Statement of Actuary (Continued) (Valuation as of June 30, 1993)

Short Condition Test

If the contributions to SERS are level in concept and soundly executed, the System will **pay all promised benefits when due - the ultimate test of financial soundness.** Testing for level contribution rates is **the long-term test.**

A short condition test is one means of checking a system's progress under its funding program. In a short condition test, the plan's present assets (cash and investments) are compared with:

1) Active member contributions on deposit;

2) The liabilities for future benefits to present retired lives;

3) The liabilities for service already rendered by active members.

In a system that has been following the discipline of level percent of payroll financing, the liabilities for active member contributions on deposit (liability 1) and the liabilities for future benefits to present retired lives (liability 2) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by active members (liability 3) will be partially covered by the remainder of present assets. The larger the funded portion of liability 3, the stronger the condition of the system. Liability 3 being fully funded is rare.

Basic Benefits ($ In Millions)

June 30	(1) Member Contributions	(2) Retired Lives	(3) Present Members (Employer Portion)	(4) Valuation Assets	Portion of Accrued Liabilities Covered by Assets (1)	(2)	(3)
1984	$396	$1,011	$759	$1,390	100%	98%	0%
1985	433	1,126	846	1,564	100	100	1
1985*	433	1,101	888	1,564	100	100	3
1986	475	1,228	967	1,781	100	100	8
1987	524	1,341	1,034	2,007	100	100	14
1988	577	1,462	1,134	2,205	100	100	15
1988#	577	1,513	1,217	2,204	100	100	9
1989	627	1,696	1,335	2,438	100	100	9
1990	684	1,872	1,447	2,686	100	100	9
1991	749	2,025	1,491	3,015	100	100	16
1991*	749	1,973	1,624	3,015	100	100	16
1992	816	2,123	1,754	3,330	100	100	22
1993	889	2,261	1,902	3,673	100	100	27

Health Care Benefits ($ In Millions)

June 30	(1) Member Contributions	(2) Retired Lives	(3) Present Members (Employer Portion)	(4) Valuation Assets	Portion of Accrued Liabilities Covered by Assets (1)	(2)	(3)
1984	-	$361	$266	$108	-	30%	0%
1985	-	386	295	120	-	31	0
1985*	-	391	369	120	-	31	0
1986	-	461	404	131	-	28	0
1987	-	562	489	137	-	24	0
1988	-	623	569	139	-	22	0
1988#	-	584	467	139	-	24	0
1989*	-	640	488	152	-	24	0
1990	-	686	519	158	-	23	0
1991	-	731	564	157	-	21	0
1991*	-	725	586	157	-	22	0
1992	-	833	685	153	-	18	0
1993	-	852	949	141	-	17	0

* Revised Assumptions
# Legislated Benefit Increase

STATISTICAL SECTION

COMPARATIVE SUMMARY OF ACCRUED LIABILITIES AND PERCENTAGE
COVERED BY NET ASSETS AVAILABLE FOR BENEFITS

BENEFIT EXPENSES BY TYPE

NUMBER OF BENEFIT RECIPIENTS BY TYPE

NUMBER OF PARTICIPATING EMPLOYERS

RETIREMENT AVERAGES

STATISTICAL SECTION

COMPARATIVE SUMMARY OF ACCRUED LIABILITIES AND PERCENTAGE COVERED BY NET ASSETS AVAILABLE FOR BENEFITS

TABLE I

COMPUTED ACTUARIAL ACCRUED LIABILITIES

June 30	Member Contributions	Current Retirants and Beneficiaries	Active Members, Employer Financed Portion	Net Assets Available for Benefits	Percentage of Accrued Liabilities Covered By Net Assets Available For Benefits (1)	(2)	(3)
1984	$396,230,502	$1,371,162,368	$1,025,589,111	$1,488,850,477	100	80	0
1985	432,528,863	1,511,799,217	1,141,424,734	1,675,733,161	100	82	0
1986	475,218,163	1,688,209,450	1,371,411,464	1,876,240,825	100	83	0
1987	524,262,202	1,903,559,908	1,522,516,727	2,062,983,466	100	81	0
1988	577,028,334	2,096,925,418	1,684,513,116	2,239,651,064	100	79	0
1989	627,076,019	2,336,503,192	1,821,748,962	2,455,595,491	100	78	0
1990	683,812,888	2,557,636,065	1,967,248,110	2,661,597,552	100	77	0
1991	748,783,498	2,697,874,221	2,210,527,169	2,863,137,140	100	78	0
1992	816,328,094	2,956,651,040	2,438,570,210	3,065,412,517	100	76	0
1993	889,126,855	3,112,877,210	2,850,184,218	3,294,641,307	100	77	0

NOTE: The ultimate test of financial soundness is the System's ability to pay all promised benefits when due. The System's progress in accumulating assets to pay all promised benefits can be measured by comparing the present assets of the System with (1) member contributions, (2) the liability for future benefits payable to current retirants and beneficiaries, and (3) the employer-financed portion of the liability for benefits payable to active plan participants.

In a system that has been following the discipline of level percent of payroll financing, the liabilities for active member contributions on deposit (1) and the liabilities for future benefits to present retired lives (2) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by active members (3) will be partially covered by the remainder of present assets. The larger the funded portion of liability (3) the stronger the condition of the System. Liability (3) being fully funded is rare.

In Table I, the entry age normal actuarial cost method was used to determine the actuarial liability. The entry age normal actuarial cost method is the same method used to determine employer and employee contribution rates.

Statistical Section

Benefit Expenses by Type Last Ten Years

Table II

Year Ending June 30	Service	Disability	Survivor	Health Care	Death Benefits and Refunds	Total
			Benefits			
1984	$85,444,144	$9,270,155	$7,389,851	$29,153,910	$8,418,007	$139,676,067
1985	96,910,985	10,527,898	8,004,136	30,778,698	8,937,228	155,158,945
1986	108,321,454	11,785,441	8,360,152	37,499,209	9,698,738	175,664,994
1987	118,726,020	12,780,695	8,958,365	51,728,280	10,862,247	203,055,607
1988	129,330,510	14,138,302	9,479,476	50,568,576	10,453,137	213,970,001
1989	144,870,006	15,968,925	10,154,865	55,688,417	12,119,325	238,801,538
1990	162,866,492	18,077,033	10,886,380	62,746,014	13,242,633	267,818,552
1991	173,348,030	19,854,430	11,358,736	71,633,065	13,076,201	289,270,462
1992	185,750,980	22,258,565	11,814,421	81,851,492	13,498,111	315,173,569
1993	198,878,409	24,987,872	12,666,260	87,079,286	14,288,721	337,900,548

Number of Benefit Recipients by Type Last Ten Years

Table III

Year Ending June 30	Service	Disability	Survivor	Total
1984	31,467	2,602	2,731	36,800
1985	33,145	2,754	2,809	38,708
1986	35,266	2,898	2,873	41,037
1987	36,750	2,977	2,943	42,670
1988	37,877	3,084	3,006	43,967
1989	39,408	3,204	3,063	45,675
1990	40,856	3,349	3,112	47,317
1991	41,773	3,518	3,176	48,467
1992	42,690	3,661	3,244	49,595
1993	43,166	3,960	3,279	50,405

Number of Participating Employers Last Ten Years

Table IV

Year	Total	Counties	Locals	Cities	Villages	Colleges	Technical	Vocational	Other
1984	769	87	376	192	49	2	13	49	1
1985	768	86	376	192	49	2	13	49	1
1986	769	86	376	192	49	2	13	49	2
1987	769	86	376	192	49	2	13	49	2
1988	768	84	376	192	49	2	13	49	3
1989	766	84	373	192	49	2	13	49	4
1990	766	84	373	192	49	2	13	49	4
1991	765	84	372	192	49	2	13	49	4
1992	764	84	371	192	49	2	13	49	4
1993	764	84	371	192	49	2	13	49	4

STATISTICAL SECTION

RETIREMENT AVERAGES
LAST TEN YEARS

TABLE V

Service Retirement

Year Ending June 30	Service Credit	Monthly Amount	Age	Salary
1984	17.427	$292.43	63.85	$9,939
1985	17.821	315.79	63.82	10,525
1986	16.846	304.73	63.64	10,292
1987	17.635	328.76	63.77	10,458
1988	19.019	378.29	62.13	11,989
1989	19.231	431.17	61.40	13,015
1990	18.734	424.85	60.75	13,034
1991	18.909	447.56	63.35	13,352
1992	19.528	517.85	63.21	15,298
1993	20.211	549.01	63.45	15,984

Disability Retirement

Year Ending June 30	Service Credit	Monthly Amount	Age	Salary
1984	14.128	$426.96	53.20	$10,803
1985	12.362	402.31	56.69	10,917
1986	13.339	431.18	56.20	10,872
1987	13.484	466.02	57.42	12,184
1988	13.086	509.27	54.64	13,060
1989	14.821	562.42	54.31	13,433
1990	14.018	551.12	53.51	13,539
1991	14.517	598.58	55.56	14,414
1992	14.595	674.50	54.80	15,644
1993	15.123	709.53	56.42	16,652

Investment Section

Investment Distribution by Market Value

Ten Year Investment Comparison

Investment Report

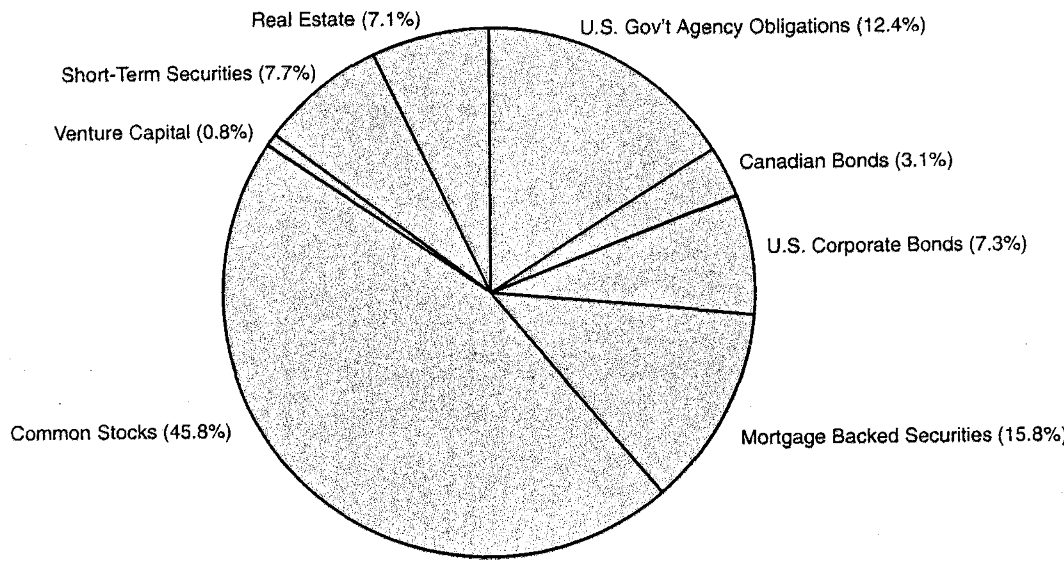
Investment Income Statements

Time Weighted Rates of Return

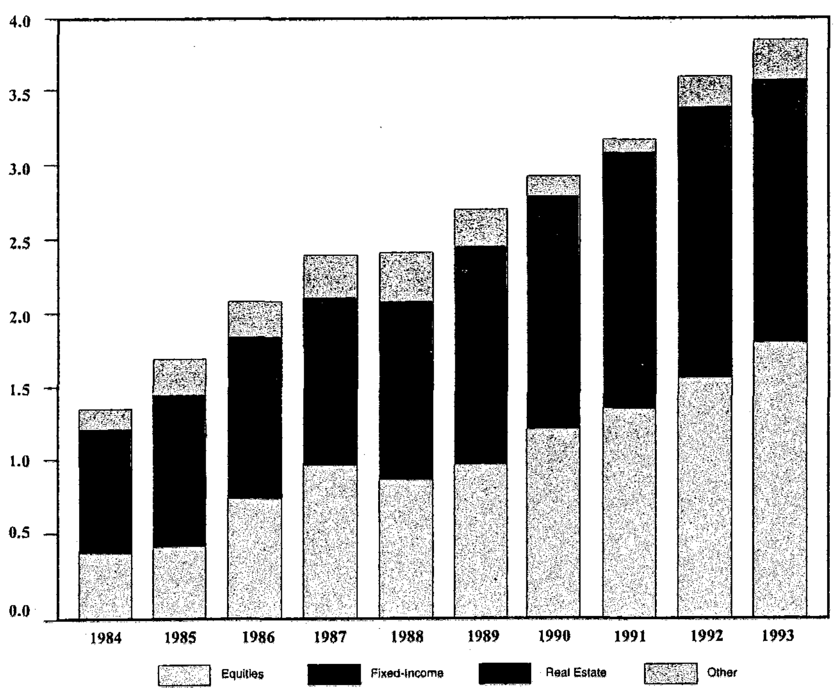
Ohio Investment Profile

INVESTMENT SECTION

INVESTMENT DISTRIBUTION BY MARKET VALUE AS OF JUNE 30, 1993



TEN YEAR INVESTMENT COMPARISON AT MARKET VALUE (IN BILLIONS)



Investment Section

Investment Report

Introduction

The investment program of SERS is governed by state statute and by Board adopted policies. Besides limiting the amount of monies which can be invested in specific asset classes such as equities, real estate and venture capital, the state statutes also establish financial standards for each asset owned by the System. Furthermore, statutes require that SERS' Board and its fiduciaries discharge their duties solely in the interest of the participants and beneficiaries. And finally, state statutes and Board policy require the prudent diversification of the System's assets.

Board policy defines further the risk levels, return requirements and diversification methods that SERS' fiduciaries should adhere to as they manage the System's investment portfolio. Board policy has charged SERS' fiduciaries with accepting a moderate amount of risk, diversifying the assets of the portfolio by asset class and by investment style, and achieving competitive investment returns within each asset class.

Asset Allocation

In early July, 1993, the State Legislature passed legislation revising the investment statutes governing SERS and the other Ohio public pension funds. The majority of the changes affected the statutes controlling our equity investments. Under the provisions of the new law SERS will be able to invest up to 50% of its assets, based on book value, in domestic equities and an additional 10% of SERS' assets, based on book value, can be invested in foreign stocks and bonds. In addition to these changes, the new legislation expanded SERS' universe of legal domestic equities to include any stock listed on the New York Stock Exchange or the American Stock Exchange or any company in the S&P 500 Stock Index or the S&P 400 Mid-Cap Index. The other changes in the law were basically technical changes made to clarify existing statutes.

Because of these statute revisions, staff anticipates that the Board will make some changes to SERS' long-term asset allocation guidelines during the coming fiscal year. But until the Board adopts new guidelines, staff will continue to adhere to the guidelines previously adopted by the Board.

Fund Strategy and Performance

For the fiscal year ended June 30, 1993, the stock market as measured by the S&P 500 had another good year. The S&P 500 returned 13.6% versus 13.4% in our prior fiscal year. SERS' common stock portfolios returned 12.7% for the fiscal year versus 13.0% last year. For the ten years ended June 30, SERS' common stock portfolios have returned 13.3% annually versus 14.3% for the S&P 500 Index. We remain positive on equities for the longer term and expect to increase our equity exposure once the new investment legislation goes into effect. We are currently researching international equities and S&P 400 Mid-Cap equities to see if exposure in these asset classes will add value to the total investment portfolio.

The fixed-income markets also performed quite well during the fiscal year with the Lehman Government/Corporate Index up 13.2%. For the year ended June 30, 1993, SERS' fixed-income portfolios returned 10.4%; and for the ten years ended June 30, the fixed-income portfolios returned 12.3% annually versus 11.8% for the Lehman Index. As in years past, we continue to emphasize high quality bonds with intermediate and longer term maturities. Because of the rapid decline in interest rates and our concerns about mortgage prepayments, we reduced our holdings in mortgage-backed securities during the past year. For the coming year, we will continue to invest in high quality bonds, and we will be very cautious about investing in new mortgage-backed securities until we are certain the mortgage refinancing cycle has been completed.

As mentioned last year, real estate values nationwide seem to have stabilized, but any recovery in price has been very slow to materialize; however, we have seen some increase in value for selected property types in specific locations. We reviewed several real estate offerings during the fiscal year for possible acquisition, but only

INVESTMENT SECTION

one measured up to our quality and return standards. The real estate portfolio returned 4.1% annually for the ten years ended June 30 versus a 4.7% annual return for the Russell-NCREIF Property Index. We will continue to review real estate properties for acquisition during the coming fiscal year and anticipate making one or two high quality acquisitions.

The total investment portfolio returned 9.7% for the fiscal year; for the ten years ended June 30, the total portfolio returned 11.2% annually. The total portfolio returns compare quite favorably to SERS' 7.75% actuarial assumptions.

CONCLUSION

Because of the recent statute changes and the likelihood that the Board will adopt new long-term asset allocation guidelines during the year, it is not possible at this time to forecast the composition of the investment portfolio on June 30, 1994. Suffice it to say that we expect the financial markets to remain very volatile during the coming year. And, as always, we will emphasize high quality, liquid, diversified investments which represent good long-term value.

INVESTMENT SECTION

INVESTMENT INCOME STATEMENTS FOR THE YEARS ENDED JUNE 30

	1993	1992
Income:		
Fixed-income interest	$130,186,177	$132,928,360
Stock dividends	49,141,412	45,849,122
Real estate	21,806,583	20,174,353
Short-term interest	5,585,814	6,712,139
Venture capital	5,602,683	2,447,625
Accretion	1,678,447	1,511,320
Securities lending	383,345	530,528
Other investment interest	270,371	364,077
Total income	214,654,832	210,517,524
Expenses:		
Accrued interest purchased	7,084,035	8,758,338
Amortization	3,329,939	1,318,373
Stock expenses	239,718	220,498
Real estate	2,449,233	2,467,180
Depreciation	2,939,979	6,018,043
Bank charges	263,784	230,907
Total expenses	16,306,688	19,013,339
Income before gain/loss on sale	198,348,144	191,504,185
Gain/(loss) on sale:		
Fixed-income	27,743,777	19,383,793
Stocks	19,730,774	11,297,345
Real estate	(2,276,557)	(14,909,524)
Venture capital	(6,975)	(1,535,913)
Total gain/loss on sale	45,191,019	14,235,701
Net investment income	**$243,539,163**	**$205,739,886**

INVESTMENT SECTION

TIME-WEIGHTED RATES OF RETURN FOR THE YEAR ENDED JUNE 30

		Average Annual Return		
	1993	3-Year	5-Year	10-Year
Common stocks				
SERS	12.7%	11.4%	13.8%	13.3%
Standard & Poor's 500	13.6	11.4	14.1	14.3
Fixed-income				
SERS	10.4	12.5	11.7	12.3
Lehman Bros. Gov't./Corp.	13.2	12.5	11.4	11.8
Salomon Bros. Mtg. Pass-Thru	9.1	11.7	11.3	12.6
Real estate				
SERS	(3.9)	(2.9)	(0.3)	4.1
Russell-NCREIF	(3.3)	(3.8)	0.1	4.7
Short-term				
SERS	3.3	5.2	6.8	7.5
U.S. Treasury Bills	2.9	4.6	5.8	6.4
Venture capital				
SERS	20.6	4.1	1.2	0.8
Total portfolio				
SERS	9.7	10.1	10.7	11.2
*Balanced Index	9.4	8.5	9.9	11.3

Source: Ronald A. Karp Associates

*Balanced Index (35% of S&P 500, 40% Lehman, 20% Russell-NCREIF, 5% U.S. T-Bill return)

OHIO INVESTMENT PROFILE AS OF JUNE 30, 1993

SERS continues to seek out high-quality Ohio investments. Total SERS investments in Ohio are valued at more than $368 million which represents approximately 9.48% of the market value of the Total Fund.

Mortgage-backed securities on Ohio properties	$146,296,277
Common stock of companies headquartered in Ohio	95,890,886
Corporate bonds and notes of companies headquartered in Ohio	40,946,820
Commercial paper of companies headquartered in Ohio	2,391,791
Real estate in Ohio	46,400,000
Commercial mortgages on Ohio properties	7,800,000
Venture capital funds managed by Ohio firms	29,132,051
Total	$368,857,825

Plan Summary

Purpose

The School Employees Retirement System of Ohio was established in 1937 by the state legislature to provide retirement and disability benefits for all non-certificated persons employed by the state's 764 school districts. This purpose is sustained by the member and employer contributions and the income realized from investment of those contributions.

Administration

The functioning of SERS is supervised by a seven member Board which works in conjunction with the System's Executive Director. Four of the seven Board members are elected by the general membership (those who contribute to SERS) and one is elected by retirants. The Ohio Attorney General and State Auditor, by virtue of their elected office, serve as the remaining two Board members in an ex officio capacity.

The Executive Director is appointed by the Board. This person oversees the administrative operation of the System, and is aided by four directors. Their areas of responsibility are finance, investments, member services, and management information services.

Employer Participation

The school employers served by SERS include public schools within the state's cities, villages and counties, as well as local districts, vocational and technical schools and The University of Akron.

Employers contribute to SERS at the rate of 14.0% of payroll. Some employers pay the System directly on a monthly, quarterly, or annual basis, while others make payments through participation in the Ohio Department of Education's School Foundation Fund.

In addition to forwarding appropriate contribution amounts to SERS, it is the responsibility of the employers to supply SERS with new membership records, members' contribution information, and any data needed at the time of a member's application for benefits or refund of deposits on termination of employment.

Employee Participation

Membership in SERS is divided into several groups based on the activity of a member's SERS account. Member groups are:

A. **Active Members** - These are persons currently employed by a school employer. Membership is required for most employees working in a position that does not require certification by the Ohio Department of Education. These persons include clerical workers, maintenance personnel, bus drivers, food service workers, playground supervisors, data processing personnel, etc. Two exceptions to the membership requirements are: (1) persons with student status within a school district may choose to become members of SERS; and (2) temporary employees for emergency purposes. Active members have an amount equal to 9.0% of their earnings deducted from their gross salaries for each payroll period. These amounts are then forwarded to SERS by the payroll officer and applied to the member's account at SERS.

B. **Inactive Members** - These are persons who have contributions on deposit with SERS, but are not currently employed by a school district in the state of Ohio.

C. **Retired/Disabled Members** - These are persons who have either (1) met the age and service requirements for retirement from service; or (2) become eligible to receive benefits as a result of an injury or illness that prevents the member from performing regularly assigned duties.

D. **Member's Survivors** - When a member dies before retirement, the qualified beneficiaries become eligible for monthly benefits from SERS.

Refund of Contributions

A member is entitled to a full refund of contributions with SERS upon termination of school employment. Only the money the member has contributed is refundable.

In accordance with Ohio Revised Code, there is a 90-day waiting period after the member's last day of service before the refund can be paid. A refund cancels any claim to benefits offered by SERS.

The refunded amount, plus interest, may be redeposited if, at some later date, the member returns to school service or to any other public service with the state of Ohio. This purchase may be made after the member has been credited with 1.5 years of contributing service.

PLAN SUMMARY

Service Retirement

Members may retire from school employment if they have attained one of three combinations of age or service:

1. Five years of service and age 60, or
2. Twenty-five years of service and age 55; or
3. Thirty years of service at any age.

A member's age is defined to be the actual age a person has reached on the day of retirement. Any change of the date of birth on our records must be substantiated by submitting proof of date of birth to the System.

Service Credit

Service credit is the actual number of years or fraction thereof a person worked within a school district or districts in Ohio schools, plus any other free or purchased service the System recognizes.

Free service is service for which no contributions are required. This includes military service performed while on leave from the school district; service with a school system before establishment of SERS in 1937; or service granted for a period (three years or less) spent off the district's payroll while drawing state worker's compensation for a school job-related accident.

Purchased service is service for which payment plus interest is required. The interest rate is 7.5%. Service must be purchased before the date of retirement if it is to be considered in calculating the member's benefits. Payment may be made in a lump sum or in multiples of one month or more so long as the complete amount due is tendered before retirement. The types of service that can be purchased are:

Military - A member may purchase up to five years of credit in SERS for active service in the armed forces of the U.S. There is no restriction placed on time elapsed between school employment and the time spent in the military. A member **may purchase additional service credit if the military service includes prisoner of war time.** Purchased credit may not be greater than the member's actual Ohio school employment credit.

Federal, Other State, or School Service - The member may purchase credit for service rendered in a school or government position outside the State of Ohio. The service cannot be greater than the member's SERS service nor can it exceed five years.

Refunded Service - Service lost due to the payment of a refund may be restored after the member has returned to work and accrued 1.5 years of service covered by SERS, STRS, PERS, PFDPF, or SHPRS. An interest charge is payable in addition to the restored funds.

Compulsory Service - This is service for which the member should have made contributions while working, but did not, for whatever reason. The full amount, plus interest, must be paid before retirement benefits are granted.

Exempted Service - This is service during a period when the member was given a choice of contributing or refraining from doing so. The member must pay the entire cost, which is based on a percentage of current salary.

Leave of Absence - A member returning to work after a period of authorized leave may purchase service credit for the period involved. An employer contribution is required for this service to be granted, but the employer is under no obligation to make payment.

A member who has contributions not only at SERS, but also at State Teachers (STRS) or Public Employees (PERS) Retirement Systems is eligible to receive transferred credit from either or both of those systems. Any service which is not concurrent with (served at the same time as) SERS service will be included in determination of retirement benefits.

Early Retirement Credit

Employers may purchase up to five years of service credit for their eligible employees under an early retirement incentive plan authorized by 1983 legislation.

Adoption of a plan is optional and only employers may purchase up to five years of such credit.

Benefit Calculation

The final average salary is the average of the member's highest three years of earnings while in the school service.

The benefit amount is calculated in this way:

The final average salary amount is multiplied by 2.1% to determine the

PLAN SUMMARY

value of a year of service credit. This value cannot be less than $86. If it is, $86 is used. The value is then multiplied by the number of years of service credit. This calculation yields the annual retirement benefit amount for a person who has service at retirement time.

For "early retirement" (the member is under age 65 or has less than 30 years of service) there is a corresponding percentage of decrease in the required benefit amount to allow for an extended period of retirement. Reduction factors are required by Ohio state law and set by the Board as recommended by the actuary.

Retirement Options

Should the retiring member wish to provide a benefit amount for a beneficiary upon the retiree's death, this may be done by the selection of one of the optional retirement plans provided for this purpose. Optional plans may be altered by the retired member should the beneficiary die before the retiree or in the event of a divorce, with consent of the ex-spouse.

Disability Retirement

A member prevented from performing regular duties on the job after incurring an injury or illness may apply for monthly disability benefits. To qualify, the member must have at least 5 years of service credit. In addition to the age and service requirements, the member must:

- Have developed the disabling illness or injury after last becoming a member of SERS;
- Have been recommended for approval by a SERS-sponsored medical review board;
- Have applied for benefits within 2 years of the last day of service with the school district;
- Not have withdrawn contributions or retired on service retirement.

There are two disability plans with differing benefits. All new members are under the new plan. Benefits range from 30% of final average salary to 75%. Benefits are lifetime under the old plan, subject to re-examination, and may be converted to service retirement under the new plan.

Death Benefits

The designated beneficiary of any SERS retirant will receive a $500 lump sum payment upon the retirant's death. If there is no beneficiary, payment is made to the person responsible for the burial expenses or to the retirant's estate.

Survivor Benefits

Qualified dependents of a deceased member may apply for monthly survivor benefits. Such benefits are payable if the member had at least 18 months of Ohio service credit, three of which were served in the 2.5 years prior to the member's death, or if the member was receiving a disability benefit.

If the member was eligible for service retirement but had not yet applied for benefits, the surviving spouse or other single dependent beneficiary of any age can draw a monthly lifetime benefit known as the joint survivor option. Duration of survivor benefits depends primarily on the age and marital status of the dependent(s).

Health Care and Other Benefits

Eligible benefit recipients receive medical insurance from SERS. Coverage for a spouse and/or dependent children can be provided by means of a monthly deduction from the benefit. Coverage is offered by the selection of the Aetna insurance company, for those persons in the Cleveland area, the Kaiser health plan, or for those in the Central Ohio area, HealthFirst, Inc.

If the benefit recipient participates in Medicare B, SERS reimburses the recipient $24.80 per month.

An optional prescription drug program is available to benefits recipients of SERS and their dependents who are covered under the Aetna plan. Participants may either choose to obtain prescription drugs from their local pharmacy and receive reimbursement from the Aetna health care plan or they may elect to receive the drugs by mail from a licensed mail order pharmacy for a minimal fee per medication.

Members retiring after June 1, 1986 must have 10 or more years of service credit to qualify for the health care benefits.

PLAN SUMMARY

Members retiring on and after August 1, 1989 with less than 25 years of qualified service credit pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium.

Cost of Living Increases

After 12 months on the benefit rolls, and each year thereafter, SERS retirees are entitled to an automatic cost of living increase of 3%, provided the Consumer Price Index shows a 3% gain over the previous year. This increase will be paid each year by the Retirement System until the accumulated excess cost of living points fall below 3%. In addition, the legislature has granted several permanent ad hoc increases to SERS retirees, the last such increase being in 1988.

Re-Employed Retirees' Annuity

Ohio public system retirees who work in a SERS covered position are entitled to an annuity at age 65. The annuity is based on a money purchase formula and may be paid in monthly payments if the monthly amount is $25 or more. If the monthly amount is less than $25, the annuity will be paid in a lump sum.